

Message Text

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ACTION EA-14

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R 092325Z AUG 73

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 1483

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL PERTH

AMCONSUL SYDNEY

UNCLAS CANBERRA 4445

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SUBJ: AUSTRALIAN TREASURY'S ANNUAL REPORT ON ECONOMY

1. HIGHLIGHTS OF GOA TREASURY REPORT RELEASED AUGUST 5
TITLED "RESOURCE ALLOCATIONS IN A GROWTH ENVIRONMENT",
FOLLOW.

2. MAIN DEVELOPMENTS. STRONG RECOVERY RECORDED
PARTICULARLY IN NON-FARM SECTOR FROM SUBDUED CONDITIONS
OF YEAR AGO. GROSS NON-FARM PRODUCT AT CONSTANT PRICES
ROSE 9 PERCENT IN TWELVE MONTHS TO END OF THIRD QUARTER,
MAINLY ON STRENGTH OF SHARP RISE IN CONSUMER SPENDING.
ALTHOUGH GROSS FARM PRODUCT DECLINED AN ESTIMATED 9
PERCENT, AS RESULT OF HIGH PRICES FOR MAJOR PRODUCTS
FARM INCOMES INCREASED MORE THAN 27 PERCENT RATE RECORDED
PREVIOUS FINANCIAL YEAR. CONTINUED RISE IN WOOL PRICES
AND VALUE OF CATTLE SLAUGHTERED WERE TWO MOST IMPORTANT
FACTORS RESPONSIBLE.

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EM EXTERNAL ACCOUNT. ALREADY STRONG BOP SITUATION FURTHER

STRENGTHENED DUE TO STRIKING GROWTH IN VALUE OF EXPORTS. DESPITE REDUCED FARM PRODUCTION, EXPORTS OF PRIMARY PRODUCTS -- PRINCIPALLY WOOL, BEEF AND VEAL, AND SUGAR -- INCREASED IN VALUE OVER 30 PERCENT. APPROXIMATELY TWO-THIRDS OF TOTAL RISE IN VALUE DUE TO INCREASED PRICES, REMAINDER IN VOLUME. RECORD INFLOW OF CAPITAL DURING FIRST HALF OF FY OF NEARLY BILLION DOLLARS (AUSTRALIAN) WAS REVERSED DURING SECOND HALF BY INTERNATIONAL CURRENCY DEVELOPMENTS AND GOA CONTROL MEASURES WITH RESULT AN ESTIMATED NET APPARENT CAPITAL OUTFLOW OF ABOUT 725 BILLION DOLLARS DURING SECOND HALF.

4. WORLD ECONOMY AND MONETARY REFORM. UPSHOT OF LONG REVIEW THESE TOPICS IS THAT, IN AUSTRALIAN VIEW, KEY TO BETTER FUNCTIONING MONETARY SYSTEM LIES IN BOP ADJUSTMENT PROCESS "WHICH PAYS NECESSARY REGARD TO THE SOVEREIGNTY OF NATIONAL GOVERNMENTS." AUSTRALIA DOES NOT SUPPORT AN "AUTOMATIC, MECHANISTIC" APPROACH TO THE USE OF OBJECTIVE INDICATORS, AS PROPOSED BY US, WHICH MIGHT BE INSENSITIVE TO OTHER RELEVANT CONSIDERATIONS. (BUT SEE EMBASSY COMMENT PARA 6.)

5. PROSPECTS. REPORT CONCLUDES WITH OBSERVATION PROSPECTS FOR EXCEPTIONALLY STRONG GROWTH IN AUSTRALIAN OUTPUT BRIGHT BUT THAT IT WILL BE DIFFICULT TO PREVENT INFLATIONARY PRESSURES FROM INTENSIFYING. LARGE INCREASE IN IMPORTS FORECAST AS MEANS OF ACCOMMODATING DEMAND PRESSURES. LABOR MARKET IN PARTICULAR EXPECTED TO REFLECT CAPACITY PRESSURES ON THE ECONOMY IN COMING YEAR. IN FINAL COMMENT RECEIVING CONSIDERABLE PRESS PLAY, REPORT TAKES PRESENT GOVERNMENT MILDLY TO TASK FOR OVER-EXPANSIVE FISCAL POLICIES. PROPOSED PROGRAMS IN EDUCATION, HEALTH, THE CITIES AND WELFARE IN FULL EMPLOYMENT CONTEXT RAISE REAL QUESTIONS, ACCORDING TO TREASURY, OF WHERE RESOURCES ARE TO BE FOUND.

6. EMBASSY COMMENT. TREASURY "WHITE PAPER" ON ECONOMY IS ANNUAL DOCUMENT PRESEUMABLY INTENDED TO SET STAGE FOR LATE AUGUST ANNOUNCEMENT FEDERAL BUDGET. SINCE WILL BE FIRST LABOR BUDGET IN MANY YEARS, BUILD-UP TO RELEASE MORE THAN ROUTINE THIS YEAR AS WITNESS FUROR OVER LEAKS (EMBTTEL 4402). ALSO UNIQUE THIS YEAR IS ILL-CONCEALED DIVERGENCE OF VIEWS BETWEEN TREASURY STAFF AND GOVERNMENT UNCLASSIFIED

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LEADERSHIP. THIS AGIN ILLUSTRATED DAY FOLLOWING RELEASE TREASURY WHITE PAPER BY PRESS REPORTS FROM OTTAWA OF WHITLAM'S RENUNCIATION OF "CONSERVATIVE TREASURY LINE" ON INTERNATIONAL MONETARY POLICY. HE REPORTED TO HAVE TORN UP SPEECH PREPARED BY TREASURY AND TRADE DEPTS. FOR USE AT COMMONWEALTH HEADS OF GOVERNMENTS MEETING WHICH TOOK CONVENTIONAL AUSTRALIAN POSITION DESCRIBED PARA 4, AND TO NOW FAVOR MEASURES WHICH WOULD, INTER ALIA, IMPOSE ADJUSTMENT PROCESS PENALIZING

SURPLUS NATIONS (OF WHICH AUSTRALIA ONE) EQUALLY WITH
DEFICIT NATIONS. PM REPORTEDLY MUCH INFLUENCED THIS DIRECTION
BY DISCUSSION WITH IBRD HEAD MCNAMARA. EMBASSY WILL BE
FOLLOWING AND REPORTING IN DETAIL FURTHER DEVELOPMENTS
SURROUNDING PRESENTATION FIRST WHITLAM BUDGET.
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